

Monetary Policy Objective

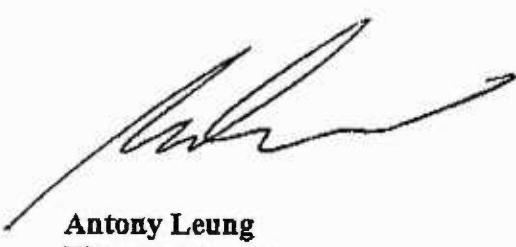
Monetary Authority

My letter to you dated 25 June 2003 sets out the division of functions and responsibilities in monetary and financial affairs between the Financial Secretary and the Monetary Authority. In particular, paragraph 6 of that letter specifies that:-

The Financial Secretary shall be responsible for determining the monetary policy objective and the structure of the monetary system of Hong Kong. The Monetary Authority shall on his own be responsible for achieving the monetary policy objective, including determining the strategy, instrument and operational means for doing so, and for maintaining the stability and integrity of the monetary system of Hong Kong.

2. In accordance with this, I hereby determine that the monetary policy objective of Hong Kong shall be currency stability, defined as a stable external exchange value of the currency of Hong Kong, in terms of its exchange rate in the foreign exchange market against the US dollar, at around HK\$7.80 to US\$1. I hereby also determine that the structure of the monetary system shall be characterised by Currency Board arrangements, requiring the Hong Kong dollar monetary base to be at least 100 per cent backed by, and changes in it to be 100 per cent matched by corresponding changes in, US dollar reserves held in the Exchange Fund at the fixed exchange rate of HK\$7.80 to US\$1.

3. As Monetary Authority you shall on your own be responsible for achieving the monetary policy objective within the structure of the monetary system I have both determined herein. I shall be happy to continue to receive periodic reports from you, as is currently the practice, in the form of the monthly Reports on Currency Board Operations submitted to the Exchange Fund Advisory Committee and subsequently published, on how the monetary policy objective is being achieved.



**Antony Leung
Financial Secretary
25 June 2003**